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Our Ref: NAO 107/2015/29

Your Ref:

5th May 2016

The Mayor
Kalkara Local Council
Kalkara

Dear Sir/Madam,

**AUDIT REPORT and FINANCIAL STATEMENTS
YEAR ENDING 31 DECEMBER 2015**

In terms of Section P2.06 (c.02) of the Local Councils (Audit) Procedures 2006, I am forwarding a copy of the Audit Report and Financial Statements, together with the Management Letter for the financial year ending 31 December 2015.

After seeking the Council's approval, you are kindly requested to submit your response to the Director (Local Government), the Local Government Auditor, and to this Office as stipulated in Section P2.06 (d) of the same Procedures, by not later than six weeks following receipt of this letter.

Yours faithfully,



Tanya Mercieca
Asst. Auditor General

Encls.



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The Mayoress
Kalkara Local Council
1, Binja tas-Salvatur,
Triq Luigi Pisani,
Il-Kalkara, KKR 1330

Our ref ABC/slc/028516

26 April 2016

Dear Madam,

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Financial statements for the year ended 31 December 2015

During the course of our audit for the year ended 31 December 2015 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income from Central Government

The council did not rectify differences in the annual Government allocation (refer to note 2.1). Neither did it recognise the amount settled by DLG for WasteServ invoices (refer to note 2.3).

1.2 Income from LES administration fees

The council did not address the issue of LES income (refer to note 2.4).

1.3 General income

The council did not address the deposits' timing issue (refer to note 2.6).

1.4 Income from rent

We did not encounter income from rent in the year under review.

1.5 Custodial receipts

We noted that the council failed to address the deposits issue (refer to note 2.7).

1.6 Income account classification

We noted that the council has incorrectly classified general income as other income (refer to note 2.11).

1.7 Wages' reconciliation

We again found a difference in the wages' reconciliation (refer to note 3.1).

REGISTRY

29 APR 2016

NATIONAL AUDIT OFFICE

Certified Public Accountants
Member firm of Grant Thornton International Ltd
A list of partners and directors of the firm is available at Tower Business Centre, Suite 3, Tower Street, Swatar BKR 4013, Malta

1.8 Performance bonuses

We are pleased to note that the issue has been addressed and the council has properly accounted for performance bonuses.

1.9 Honorarium paid to mayoress

We noted that the honorarium has been correctly computed in the year under review.

1.10 FSS tax and NI due

FSS tax and NI due were understated (refer to note 3.3).

1.11 Statutory liabilities

We again found statutory liabilities' presentation issues (refer to 3.4)

1.12 Fixed asset register

The council has again failed to compile a fixed assets register (refer to note 4.1).

1.13 Classification of assets

We did not encounter instances where the incorrect account classification was used for assets.

1.14 Assets under construction

The council has again failed to address this issue (refer to note 4.7).

1.15 Depreciation of fixed assets

We noted that the council has failed to calculate depreciation in accordance with the Procedures (refer to note 4.9).

1.16 Reconciliation of financial statements to accounting records

The fixed assets reconciled to the accounting records.

1.17 Tagging of fixed assets

The council did not address the issue in the year under review (refer to note 4.5).

1.18 Petty cash expenditure

We noted that the council failed to adhere to petty cash procedures and implement an Imprest system (refer to notes 5.1 and 5.3).

1.19 Schedule of offers

We noted that the issue has been rectified by the council and procedures were adopted to reflect good business practice.

1.20 Green public procurement

We noted that the council failed to address the issue (refer to note 5.8).

1.21 Contract agreements

We noted that council did not address the issue (refer to note 5.11).

1.22 Street lighting contracts

We are pleased to note that the issue has been resolved and an effective contract is now in place.

1.23 Asset insurance

The council insurance is still not resolved (refer to note 5.17).

1.24 Personal accident insurance

We noted that the council has resolved this issue and reviewed the personal accident insurance policy.

1.25 Donations

We noted that no donations were given during the year under review

1.26 Use of mobile phone

We noted that this issue is still ongoing (refer to note 5.19).

1.27 Reimbursement of fuel expenses

We noted that the way fuel is being reimbursed is still not compliant with council procedures (refer to note 5.21).

1.28 Christmas lunch

We noted that the council did not organise a staff party in the year under review.

1.29 Procurement

During our audit we noted that this issue has not been addressed (refer to note 5.24).

1.30 Tax invoices

The council failed to properly address this issue (refer to note 5.6).

1.31 Expired contracts

We again encountered expired contracts during the year under review (refer to note 5.26).

1.32 LES receivables

We noted that the council did not investigate and resolve the LES receivables issue (refer to note 6.1).

1.33 Provision for pre-regional LES debtors

The council has correctly adjusted the difference in pre regional LES debtors.

1.34 Receipts from pre-regional contraventions

We did not encounter instances of receipts from pre-regional contraventions which were not recorded.

1.35 Overdue receivables

During our audit we noted that overdue receivables have not been addressed (refer to 6.3).

1.36 Trade receivables

The council did not reconcile receivables from the Central Regional Committee in the year under review (refer to note 6.5).

1.37 'Stale' cheques

During the audit we were again presented with a bank reconciliation that contained stale cheques (refer 7.1).

1.38 Unpresented cheques

The council again failed to address the issue of unpresented cheques (refer to note 7.3).

1.39 Allocation of customer receipts

We noted that the council is not allocating customer receipts to invoices (refer to note 6.6).

1.40 Prepayments

We did not encounter overstated prepayments in the year under review.

1.41 Accrued income and grants

The council again failed to provide information regarding grants (refer to note 6.8).

1.42 Debit balances in creditors' list

The council did not address the issue of debit balances in the creditors' list (refer to note 8.8).

1.43 Creditors' list

During our audit we again noted a difference between the creditors' list and the creditors' control account (refer to note 8.1).

1.44 Trade creditors

The council did not obtain all supplier statements and did not reconcile all trade creditors (refer to note 8.4).

1.45 Long-outstanding creditors

The council did not address the issue (refer to note 8.10).

1.46 Accrued expenditure

We found one instance where accrued expenditure was understated (refer to note 5.30).

1.47 Deferred income brought forward

We noted that the council did not address the issue (refer to note 9.1).

1.48 Reclassification of current and non-current portion of deferred income

During our audit we noted that the council did not reclassify the current and non-current deferred income (refer to note 9.1).

1.49 Binding of minutes

We are pleased to note that the council has bound the minutes.

1.50 Duration of meetings

We noted that the council addressed the issue and meetings did not last more than three hours in the year under review.

1.51 Electronic site

We noted that the council did not address the issue (refer to note 10.1).

1.52 Quarterly financial report

Again the council failed to rectify the issue (refer to note 10.5).

1.53 Budget

The budget was prepared within the prescribed time.

1.54 Change in executive secretary

The executive secretary is the same as last year so no mid-term audit was required this year.

1.55 Accounting function

The council did not address the issue (refer to note 11).

1.56 Liquidity position

During the year under review the council had liquidity issues (refer to note 12.1).

1.57 Financial Situations Indicator

The council did not address the issue (refer to note 12.3).

1.58 Presentation of financial statements

We again noted issues in the presentation of financial statements (refer to note 13.1).

1.59 Prior year adjustment

We again encountered an unwarranted prior year adjustment issue during the audit (refer to note 15).

1.60 Cash flow statement

The council has disclosed cash payments to acquire property, plant and equipment. However, the council did not disclose grant received for the live streaming equipment (refer to note 13.6).

1.61 Groupings

The issue has been rectified and we did not encounter any inconsistency in the groupings this year.

2 Income**Income from Central Government**

2.1 We tested the annual Government allocation and noted that the council omitted from recognition an amount of €120 relating to the annual e-government fee which was directly deducted from the allocation. An adjustment has been proposed in this respect to correctly reflect the gross income received from Central Government in accordance with instructions received from the NAO.

2.2 All amounts directly deducted from the Central Government allocation should be grossed up such that the Central Government allocation is reported in full. Section 55 of the Local Councils Act states that it is important that the income as recorded

in the books of accounts (Nominal 0001) agrees to the financial allocation for the year.

Other supplementary Government income

- 2.3 During the year under review, the Department paid the amount of €25,376.36 to WasteServ Malta Limited relating to tipping fees incurred in previous years. The council did not record this transaction. Hence an audit adjustment of €25,376.36 was proposed. The council has included this adjustment in the final set of financial statements.

LES administration fees

- 2.4 We tested income from LES administration fees by reference to report 483 of the Loqus system and noted that income is understated by €59. No adjustment was proposed to correct this misstatement since we could not determine how the difference arose.
- 2.5 We recommend that the council investigates the difference and determines if the discrepancy relates to a mistake in the invoices issued to the regional committees and LESA or a misposting.

General income

- 2.6 We came across instances where the council failed to deposit receipts on a timely basis. Examples are:

Description	Receipt number	Receipt date	Deposit date	€
Crane permit	2464	23.01.15	23.04.15	2.33
Permit for kiosk	2535	09.06.15	25.06.15	23.29
Crane permit	2625	16.07.15	23.07.15	2.33
Truck permit	2671	14.08.15	03.09.15	12.33
Crane permit	2768	28.10.15	05.11.15	10.00
Crane permit	2801	27.11.15	05.01.16	20.00

Custodial receipts

- 2.7 We also noted that the council failed to deposit cash on a timely basis for LES contraventions, warden services and Lands Department. Examples include:

Description	Receipt number	Receipt date	Deposit date	€
LES receipts	2902615	27.02.15	16.03.15	23.29
LES receipts	2982082	30.05.15	16.06.15	23.29
LES receipts	3031289	22.07.15	06.08.15	35.00
Lands Department	654308	27.11.15	21.12.15	105.00
Warden services	2492	04.03.15	23.04.15	15.84

- 2.8 We remind the council that the Financial Procedures and LN 28/2000 require the council to deposit its cash collected from general income and custodial receipts at least twice weekly. We advise the council not to leave cash and cheques on the premises for a prolonged period of time since, apart from contravening the Procedures, it can give rise to security concerns.

Income from grants

- 2.9 The council received a grant for healthcare equipment amounting to €3,070.59 which was recorded as income. The same amount was already accrued for in last year's financial statements. In addition, the council also received another grant in 2015 amounting to €2,287.25 relating to the live streaming equipment which was also recorded in full as income. Hence, the council did not defer this income in accordance with IAS 20 *Government Grants*.
- 2.10 The council approved our audit adjustment to correct the misposting of €3,070.59 and record €2,287.25 as deferred income. These will be released to the income statement based on the income approach to match the costs to which they are intended to compensate. The audited financial statements of the council reflect this adjustment.

Income account classification

- 2.11 During our audit we noted that the unaudited financial statements had taken €1,458.50 erroneously as other income. We have proposed an audit adjustment to reclassify the amount as general income. This has been reflected in the audited financial statements.
- 2.12 We recommend that income receivable is allocated to the appropriate accounts so that the income of the council is properly recorded.

3 Payroll**Wages' reconciliation**

- 3.1 Whilst testing the salaries we noted a discrepancy of €3,074.85 between personal emoluments in the accounting records and the amounts declared in the FS5 forms sent to the Inland Revenue Department. This difference was not reconciled.
- 3.2 We recommend that all wages paid by the council are correctly communicated to the Commissioner of Inland Revenue and that the necessary adjustments are made to the accounting records in order to match the amount which is being declared in the FS5 and FS7 forms.

Statutory liabilities

- 3.3 The tax and NI contributions of €423 are presented incorrectly with accruals in the unaudited financial statements. Furthermore the accrual is understated since tax and NI for December 2015, paid in January 2016 were €1,839.64. We proposed an audit adjustment to correct the error and this is reflected in the council's audited financial statements.
- 3.4 FSS and NI payments due should not be included in accruals as they are preferential creditors and require separate disclosure. These should be disclosed as other creditors or separately (since they are not financial instruments).

Declaration of councillors' allowances

- 3.5 During our audit we noted that the council has incorrectly reported councillors' allowances under 'Part Time Gross Emoluments' in the FS3s of the councillors and the FS7.
- 3.6 We would like to remind the council that councillors' allowances do not qualify for the Part-Time Work Regulations (1996) and as such should be declared under

'Gross Emoluments' (FSS Rules). We recommend that the council adheres to these regulations.

Performance bonuses

- 3.7 During the audit we noted that the council has erroneously classified the performance bonuses under employee wages salaries. We have proposed an audit adjustment to reclassify the amount in the bonuses account. This was not reflected in the audited financial statements.
- 3.8 We recommend that the council keeps separate accounts for bonuses and employee wages and salary for ease of extraction.

4 Fixed assets

Fixed asset register

- 4.1 Memo 106/2010 states that all councils should prepare fixed asset registers by the end of the year. This is further reinforced by memo 03/2016 stating that the councils must have a fixed asset register which agrees to the nominal ledger for the period ending 31 December 2015. This, however, was not provided to us.
- 4.2 As stated in our previous management letter, the council is required to compile and maintain a fixed assets register which agrees to the nominal ledger.
- 4.3 We recommend that the council prepares a fixed asset register including the following details:
- Description of asset
 - Date of purchase
 - Supplier details
 - Invoice number
 - Asset tag code
 - Cost
 - Depreciation method and rate
 - Location of the asset
- 4.4 A fixed asset register is essential to maintain proper control over the assets in the council's custody. It provides a checklist to enable periodic physical inspection of assets to verify existence and conditions. Furthermore, the information contained above allows any disposals to be correctly accounted for.

Tagging of fixed assets

- 4.5 We also noted that furniture, fittings, office and computer equipment are not tagged.
- 4.6 The Local Councils (Financial) Procedures, 1996 required assets to be tagged (where applicable) and referenced to the fixed assets register.

Assets under construction

- 4.7 Assets under construction at year end amounted to €63,324. As pointed out last year no information was given regarding these assets. The only information obtained was that these assets have been brought forward from previous years. Furthermore, the additions to this class of assets in the year under review relate to

an invoice which was issued by Char Constructions in 2013 and not paid until 2014 and 2015.

- 4.8 In accordance with IAS 16, *Property, Plant and Equipment* when an asset is completed then it should be transferred to the respective fixed asset accounts. Based on the information obtained from the executive secretary there are no fixed assets which are still under construction. Due to the lack of information obtained no adjustment can be proposed.

Depreciation of fixed assets

- 4.9 Our audit procedures revealed that the council's depreciation charge for the year is overstated by €12,850. This difference resulted because the council is computing depreciation on an annual straight line basis rather than using the reducing balance method on monthly basis.
- 4.10 We have proposed an audit adjustment to correct this overstatement. This has been reflected in the final set of financial statements.
- 4.11 We recommend that the depreciation is calculated in accordance with the Local Councils (Financial) Procedures which state that councils should depreciate fixed assets on a monthly basis using the reducing balance method.

5 Expenses

Petty cash expenditure

- 5.1 The council has still not implemented the Imprest system for petty cash. Cheques are issued in the name of the executive secretary for the reimbursement of petty cash expenditure.
- 5.2 May we remind the council of the Local Councils (Financial) Procedures, 1996, which state that the executive secretary should establish an Imprest system for petty cash so that adequate control can be exercised.
- 5.3 During the audit we found that cash register chits were still accepted in respect of petty cash expenditure. The council has presented some petty cash source documents excluding Value Added Tax. Furthermore, there were circumstances in which expenditure has exceeded the €23.29 threshold stated in the Local Council Financial Procedures. The following are instances which were encountered during the audit fieldwork:

Details	Supplier	Date	€
Taxi	Taxi licensed white Amalgamated	19.02.2015	40.00
Flowers	Unknown	29.05.2015	30.00
Repairs	Zahra Enterprise	10.08.2015	37.69
Postage	Malta Post	12.11.2015	28.18
Flowers	Emmanuel Vella	28.11.2015	26.00

- 5.4 During the audit, it was also noted that when preparing the petty cash vouchers the council did not include an analysis of expenses to enable posting to their respective accounts.
- 5.5 The Procedures point out that all supplies should have a valid invoice which is addressed to the council. Furthermore, the Procedures specifically require that

supplies are supported by a proper tax invoice. We highly recommend that the council obtains tax invoices which are addressed to the council, whenever possible, to support petty cash payments, thus ensuring that payments are in the normal course of the council's activities.

- 5.6 We also traced instances where reimbursements were given from petty cash for which no receipt was available. We were presented with a piece of paper with 'flowers' written on it dated 29 May 2015 for a total cost of €30.
- 5.7 May we remind the council that the Local Councils (Financial) Procedures 1996, states that supplies are only made on the provision of a valid invoice which is addressed to the council. To this end, we recommend that, where possible, the council obtains a tax invoice or a VAT receipt addressed to the council for petty cash purchases.

Green public procurement

- 5.8 During the audit, it was noted that no provisions regarding green public procurement were included in tender KLC/T02/15 for bulky refuse collection services.
- 5.9 As outlined in memo 25/2015 issued by the Department, councils are required to include the green public procurement criteria within the technical specifications of the tender documents.
- 5.10 We recommend that, in the future, the council follows the Department's directive and includes the green public procurement criteria in the tender documents.

Contract agreements

- 5.11 All contract agreements for tenders adjudicated during the year under review were signed by the executive secretary and the contractor only.
- 5.12 We recommend that all contracts are signed by both the mayoress and the executive secretary, thus ensuring the council's approval of the contract. We would like to remind the council that they, the mayoress and secretary, jointly have the power to bind and represent the council.
- 5.13 For tender number KLC/T04/14, the council did not provide a contract agreement. Thus we were unable to determine the date when the contract was entered into and the duration of the contract.
- 5.14 We would like to point out that the council has some contracts which have expired but no new tenders have been issued to date. For example the council is still using an expired contract for the provision of gardening and greenery upkeep. This contract expired in 2008 and no other tender was issued. Reference is made to memo 10/2013 stating that the council should not make use of expired contracts. Furthermore, the council should allow enough time to issue a fresh call for tenders and adjudicate it before the preceding contract expires. (Refer also to note 5.26).

Legal services

- 5.15 During the year under review, we noted that the council is still using direct orders for the provision of legal services. We understand that this is because the tender is under objection.
- 5.16 We recommend that once the matter is resolved, the council will regularise the situation and follow mandatory tender procedures.

Asset insurance

- 5.17 Whilst reviewing the asset insurance policy with AIB Insurance, we noted the following exceptions:

	Sum insured €	Cost as per records €
Buildings/Furniture and fittings	26,000	22,020
Computer equipment	3,000	16,603
Office equipment	-	9,296
Plant and machinery	-	6,350

- 5.18 This indicates that the council's assets are not adequately insured. It is suggested that the council carries out periodic review to assess the adequacy of the council insurance coverage as required by the Local Councils (Financial) Procedures 1996.

Use of mobile phone

- 5.19 In our previous management letter, we highlighted that the council was paying the executive secretary's mobile phone bill. The same issue was noted during the year under review.
- 5.20 Local Council's Procedures and memo 21/2013 provide guidance on the use of mobile phones by the council. The council should issue a new contract in the name of the council and have a new mobile number.

Reimbursement

- 5.21 During the audit we noted that the council has reimbursed Ms J Ciantar for fuel on a fixed basis. Furthermore, we noted that the council has reimbursed the mayoress €55 for a taxi fare.
- 5.22 This contravenes the applicable procedure stating that fuel expenses should be reimbursed on a mileage basis after being approved by the council in meetings.
- 5.23 Furthermore, may we remind the council that the mayoress receives an allowance of €1,600 per annum to cover any communication and travel costs incurred in performing council related duties. We recommend the council abides by memo 107/2010 which clearly states that the councillors and mayoress have no right to claim any other expenditure in relation to performing their council duties apart from the honorarium and the allowance.

Procurement

- 5.24 During the audit we noted that some cheque payments did not have a supporting purchase order/ quotation in accordance with the Procedures. Instances which were encountered during the fieldwork are the following:

Supplier	Details	€
D Xquisite Pasticceria	Christmas activities for 2014	625.11
Veritas Press	Kalkara Day 2014	401.20
Smart Office Supplies	Office supplies	383.23
Malcolm Borg	EU projects and funding	767.00
Josette Attard	Cleaner	85.00
Pavia Hardware Store	Material for outdoor works	285.45

- 5.25 As pointed out previously, the Local Councils (Financial) Procedures, 1996, state that purchase orders and one quotation must be raised for all purchases between €23.29 and €1,165. Furthermore, three quotations should be obtained if the expense is within the €1,165 and €4,658 threshold. Memo 1/2010 states that all quotations should be published in the Government Gazette and on any local newspaper.

Expired contracts

- 5.26 During the year under review it was noted that the contracts for accounting, street sweeping and upkeep and maintenance of footpaths have expired. The executive secretary informed us that during the year the council issued a tender for pavement sweeping and cleaning of soft areas but all offers were refused.
- 5.27 Memo 10/2013 binds councils to issue a new tender before expiration of the preceding tender. The same memo strictly prohibits the extension and continued use of expired contracts.

Expenditure for locality day

- 5.28 During the audit we noted that the council spent €4,761.39 on locality day activities. Memo 8/2011 states that the cost of the council's locality day should not exceed the higher of €3,500 or 0.5% of the annual allocation.
- 5.29 We recommend that the council budgets the locality activity and ensures that expenses do not exceed the thresholds specified in the memo.

Legal services

- 5.30 During the year under review, we noted that the council posted an invoice of €250 in the expenses account when the invoice was received. The council received the invoice on 16 February 2016 for legal services provided in 2015. We have proposed an audit adjustment to account for this omission. This was approved by the council and incorporated in the financial statements.
- 5.31 We recommend that the council posts invoices in the period when the service was given. This is required by the accruals concept which requires recording of expenses when they are incurred and not when they are paid.

Cleaning services

- 5.32 During the audit, we noted that no call for quotations has been made for cleaning services. The executive secretary stated that she had raised the issue with the council but the council rejected making a call for quotations.
- 5.33 We recommend that the council issues a call for quotations as required by the Local Councils (Financial) Procedures.

6 Receivables

LES receivables

- 6.1 The council's LES receivables pertaining to the pooling period up to 31 August 2011 amount to €63,049 as per Loqus report 622. This results in a difference of €19,728 when compared to €82,777 as disclosed in the financial statements. However we did not propose an audit adjustment to reduce the LES debtors because it has no effect on the financial statement since these are fully provided for.

- 6.2 We recommend that the council investigates this significant difference and adjusts the LES receivables at the reporting date to reflect all adjudicated contraventions not yet paid as per Loqus report 622.

Overdue receivables

- 6.3 The council's debtors' list includes overdue balances receivable from Maltacom plc (now Go plc) amounting to €1,237.86 and from Water Services Corporation amounting to €647.58. These balances are overdue by more than four years and the executive secretary expressed serious doubt in collecting the debts. We proposed an audit adjustment to record an impairment of these amounts. The council has included this adjustment in the final set of financial statements.
- 6.4 The council should chase these debtors sending reminders for the long overdue amounts. In the event that recoverability of these debtors remains doubtful, the council should also consider writing them off in the books of accounts after obtaining approval in meeting.

Trade receivables

- 6.5 We identified an unreconciled difference of €49.14 when comparing the balance confirmed by Central Regional Committee with the books of accounts. The amount was not reconciled by the council.
- 6.6 Whilst scanning the debtors' activity during the year, we noted that the council is not allocating receipts to invoices, thus making it difficult to reconcile debtor accounts.
- 6.7 We recommend that the council should properly allocate receipts from third parties against specific invoices in the accounts thus highlighting any differences while reconciling the receivables.

Accrued income and grants

- 6.8 We noted that the list of accrued income includes various amounts for which the council has no information or supporting documentation and which have been brought forward from previous years:

	€
Kalkara boat house	2,500
Uniking	20,620
	<u>23,120</u>

- 6.9 We recommend that the council investigates these balances brought forward and obtains supporting documentation. In the event that these are invalid or no longer receivable, this accrued income should be reversed against the appropriate account. The council should perform this exercise over the coming financial year.
- 6.10 We had to qualify our audit opinion because our audit procedures were limited in the case of this accrued income owing to lack of information and supporting documents.

7 Bank and cash

'Stale' cheques

- 7.1 During the audit we were presented with the BOV current account reconciliation. This included 'stale' cheques dating back to 2012 and 2013. Moreover the 2012 cheques were not listed in the prior year reconciliation. Cheque numbers 5330,

5499, 5661, 5666, 5714, 5719, and 5724 were encashed in 2014 but are still presented in the bank reconciliation as unrepresented cheques.

Cheque number	Cheque date	Amount €	Date presented
Unknown	Year 2012	1,511.60	
Unknown	Year 2013	2,903.60	
5318	19.07.2013	381.06	
5330	13.08.2013	372.50	31 January 2014
5391	31.10.2013	450.00	
5499	14.04.2014	300.00	30 April 2014
5562	08.07.2014	150.00	
5661	06.10.2014	45.01	18 December 2014
5666	06.10.2014	700.00	15 October 2014
5673	06.10.2014	61.92	
5674	06.10.2014	35.00	
5714	11.11.2014	55.00	6 March 2015
5719	26.11.2014	42.75	29 November 2014
5724	27.11.2014	1,025.88	29 November 2014
5727	27.11.2014	930.35	

- 7.2 The 'stale' cheques mentioned above should be looked into and the amounts reversed against their respective accounts if there is a low probability of the cheque being cashed. No information has been provided on the 2012/2013 figures and the council should make every effort to determine what these cheques relate to.

Unrepresented cheques

- 7.3 The council has presented the bank reconciliations for the BOV current account using Excel spreadsheets rather than using the Sage reconciliation facility.
- 7.4 When testing the bank reconciliation we also noted two cheques which had the wrong amount. This was confirmed with the bank statement.

Cheque number	Cheque value as per reconciliation €	Value as per cheque image €
5666	700.00	4,293.81
5714	35.00	55.00

- 7.5 It is recommended that the council reconciles the bank accounts at least on a monthly basis or more frequently depending on the volume of transactions. The council should ensure that items are reconciled when they are matched to the respective bank statement. This will ensure that errors such as those mentioned in 7.4 are detected.
- 7.6 The council did not provide a bank reconciliation for HSBC account 5003 as the year-end balance was €127.63 and bank statement had a balance of €104.34. The difference of €23.29 was not reconciled by the council.
- 7.7 Based on the above findings it shows that the reconciliations are incorrect and therefore those cannot be relied upon. It is very important that the council reconciles all its bank accounts with bank statements.
- 7.8 The council should ensure the correctness of bank reconciliations and that the book balances reconcile to bank statements at the reporting date. Discrepancies should be flagged immediately for investigation.

8 Payables

Creditors' list

- 8.1 A difference of €11,201 was noted between the creditors' list and the control account and we were not provided with any explanation.
- 8.2 A reconciliation of the creditors' list with the control account should have been made by the council to ensure that creditor balances are properly stated in the accounts. In addition the council must request monthly statements and regularly reconcile creditors' balances in the accounts.
- 8.3 In view of the discrepancy identified between the control account and list, both this year and last year the council should appreciate the importance of creditor reconciliations to statements. We also remind you that the Procedures and memos specifically state the council should obtain monthly statements from suppliers and agree amounts to the balances in the accounts. It should also make routine checks and reconciliations of the list to the trial balance to identify and correct errors.

Trade creditors

- 8.4 During the audit we noted that the council did not obtain statements from all suppliers as at year-end and hence did not reconcile balances.

A number of exceptions were identified in our testing of creditor balances:

- (a) The council did not record a payment of €25,376.36 made by the DLG to WasteServ on behalf of the council in respect of outstanding excess tipping fees. An adjustment was proposed in this respect to record this payment as "Other Supplementary Government Income" in line with memo 3/2016.
 - (b) We noted that the creditor balance of Saviour Mifsud was understated by €34.90. Furthermore, the service provider failed to issue a valid fiscal receipt as required by the Local Council (Financial) Procedures.
 - (c) During the audit we found that the council had not reconciled the balance due to Alex Fenech. During the audit procedures we noted that the council paid the same invoice twice. In addition, other paid invoices were still found in the supplier statement. Furthermore, the statement shows invoices related to 2012/2013 services which the council never received.
 - (d) The difference of €23,656 in this balance has still not been fully reconciled.
 - (e) The creditor balance for Char Construction was overstated by €53.37. No reconciliation was provided for the above creditor.
 - (f) When reviewing creditors' accounts we noted that the council had made an overpayment of €190.05 to Saviour Ciantar. This difference was not detected and reconciled by the council.
- 8.5 The above situation again highlights the importance of reconciling the creditor balances. We refer again to Procedures and memo 3/2016 which state that councils shall obtain monthly statements in order to reconcile balances with the accounts.
- 8.6 During the audit procedures we noted that the council is making payments on account to WasteServ and ELC.

- 8.7 We recommend that the council issues payments against specific invoices. In this way the council will be able to reconcile creditor balances and identify any differences on time.

Debit balance in creditors' list

- 8.8 The council's creditors' list at the end of the year includes debit balances amounting to €4,084.95 which have arisen in the current year.
- 8.9 We recommend that debit balances in the creditors' list are disclosed separately with other receivables rather than set off against trade creditors. The executive secretary should investigate why these creditor accounts are in debit. This could be for a number of reasons, including mispostings or omitted invoices.

Long-outstanding creditors

- 8.10 The council's creditors' list includes the following balances which have been outstanding for more than one year:

Creditor	€
AFS Ltd	168.96
ELC	499.99
Amabile Galea	17.70
B Grima & Sons Ltd	61.55
Catering Contractors	300.00
Christopher Spiteri	142.30
Ciantar Josette	40.00
Claudio Catania	300
Comsec	82.60
General Distributors Ltd	41.06
Grezzju Azzopardi	80.00
Horace Entertainment	363.58
ITC Ltd	129.14
Joe Bonnici & Sons	40.00
Local Government Association	50.00
Marshall Ltd	20.00
M Gas Sound Company	80.00
Anglu Grech	830.99
Peppin Garage	40.12
Perit Alan Saliba	1,002.53
PM – Home Affairs	100.00
S&R Handaq	83.07
Sunland Printers	295.00
Super 1 Radio	130.56
Veritas Press	336.60
Vince Mifsud	813.68
Walter Barbara Photography	245.00
	<u>6,294.43</u>

- 8.11 We recommend that the council reviews these amounts and, either settles them if still due, or else reverses them after having obtained approval from the council. Furthermore, decisions and discussions regarding these balances should be minuted during the council meetings.

9 Grant accounting

Deferred income brought forward

- 9.1 Memo 3/2016 obliges councils to compile a list of deferred income and related workings. However, the council has no workings for deferred income and hence we were unable to perform audit procedures for balances brought forward of €69,190 (2012 financial statements). In view of this deferred income could not be classified into current and non-current positions.
- 9.2 The previous audit report has been qualified on the basis that the council is not releasing deferred grants to income other than amounts we could adjust for and in view of the limitations we have again qualified the audit opinion on the financial statements with regards to deferred income.
- 9.3 We recommend the council analyses all past grant agreements to ensure that grants are treated under the income approach as laid down in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. The council should compile a schedule of deferred grants that appropriately apportions all grants over the useful lives of the assets concerned.

10 Administration

Uploading of meeting minutes and schedules of payments on website

- 10.1 We draw to your attention that some meeting minutes (14-15, 16-15, 17-15, 18-15, 19-15, 20-15, 21-15, 22-15, 23-15 and 24-15) uploaded on the website were not signed.
- 10.2 We observed that the council did not upload schedules of payments numbers 16, 18 and 20 on the electronic site of local councils within two working days from their approval. Schedule of payment number 20 had still not been uploaded at the time of our fieldwork.
- 10.3 During our audit we noted that cheque number 5740 has been listed twice on the same schedule of payments having two different payees with different amounts.
- 10.4 We remind the council of the requirement under memos 77/2009 and 102/2010 to upload the signed minutes together with schedules of payments on the website within two working days.

Quarterly financial report

- 10.5 The quarterly financial reports were uploaded late on the website and to date of fieldwork the financial report for October to December 2015 had still not been uploaded. We also noted that all quarterly financial reports were not signed.
- 10.6 This contravenes the Local Councils (Financial) Procedures which point out that quarterly financial reports should be presented within two weeks after the end of each fiscal quarter. The council should present the quarter's results with comparisons to the budget.

11 Accounting function

- 11.1 The unaudited financial statements showed a loss of €40,815 which, after our proposed audit adjustments, decreased to €10,509.

- 11.2 The significant audit adjustments required are a cause of concern since the council approved financial statements in February 2016 which did not present fairly the results and statement of financial position of the council at year-end. If interim accounts are prepared in the same way, the council may be misguided as to the performance and position of the council and may incorrectly rely upon inaccurate accounts for decision-making purposes and the budgeting process. Our audit findings and proposed audit adjustments, many of which have already been brought to the attention of the council in our previous audit, indicate that the accounting function needs to be taken more seriously by the council.
- 11.3 We recommend that greater attention is paid to the book-keeping function to ensure that the annual financial statements do give a true and fair view of the council's results and state of affairs. The council should not rely on the year-end audit to reveal errors in the preparation of its accounts. May we also remind the council that in accordance with memo 3/2016 the council must make sure that the person in charge of the preparation of the accounts, apart from being in possession of the CPA warrant, should be up-to-date with the accounting standards and regulations.
- 11.4 We also remind you that it is the responsibility of the executive secretary and local council's members under the Local Councils (Financial) Procedures to ensure that the financial statements present fairly the income, expenditure and retained funds of the council as at the year-end.

12 Liquidity position

Liquidity position

- 12.1 During the year under review the council has closed off with a negative cash liquidity position. The council payables are €163,111 more than its current assets. This reveals that there is a great probability that the council will be unable to meet its obligations as they fall due.
- 12.2 When compared to the previous year's figures the council's liquidity position did not improve. In view of the negative liquidity situation we have qualified our audit report.

Financial Situations Indicator

- 12.3 At the end of the financial year under review the council's Financial Situation Indicator (FSI) was negative. This is taken based on the minimum positive balance of ten per cent of the annual Government allocation.
- 12.4 The Local Council (Financial) Regulations, 1993, binds the council to maintain a positive balance of ten per cent from the annual Government allocation. In such a situation the executive secretary must explain the actions to be taken to remedy the situation.

13 Financial statements

Presentation of financial statements

- 13.1 By virtue of memo 3/2016 councils are required to prepare financial statements in conformity with International Financial Reporting Standards. During our audit we identified that the council's financial statements were not prepared in accordance with International Financial Reporting Standards (IFRS):
- The council's financial statements do not give all the quantitative and qualitative disclosures required by IFRS 7, *Financial Instruments: Disclosures*.

- ii. IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires the disclosure of all the relevant new and amended IFRS. The council has not updated the note to comply with 2015 policies.
 - iii. No disclosures were given relating to the reconciliation of the provision of doubtful LES receivables which is required by IFRS 7.
 - iv. Capital commitment were not disclosed in the financial statements as required by IAS 16, *Property, Plant and Equipment*.
- 13.2 We necessarily had to qualify our audit opinion in light of the above departures from IFRS's.
- 13.3 In addition to the above, we identified further shortcomings in the council's financial statements:
- i. An analysis of deferred income was not disclosed in accordance with NAO's instructions.
 - ii. Note 5 to the financial statements should have read LES administration fees and not contraventions.
 - iii. The note numbers in the financial statements do not reflect the sequence found in the notes to the accounts section.
 - iv. Casting errors were noted in:
 - (i) the administration and other expenses (note 10)
 - (ii) in the cash and cash equivalents (note 13)
 - v. Opening balances relating to plant and machinery, office equipment and urban improvements disclosed in note 10a do not agree to the respective closing balances disclosed in the 2014 financial statements.
 - vi. Comparatives figures of some items are those of 2013 and not 2014.
 - vii. There is no accounting policy for LES administration fees.
- 13.4 The council rectified items iv to vi when preparing the final financial statements. However the financial statements have still omitted LES administrative fees.
- 13.5 During the audit, we noted that the profit presented in the financial statements did not agree to the figures provided in the trial balance by €482.
- 13.6 The cash flow statement did not disclose the grant received during the year for the live streaming equipment.
- 13.7 We recommend that the cash flow statement is prepared correctly and reflects actual cash movements in accordance with IAS 7, *Cash Flow Statements*.

14 Capital commitments

- 14.1 In accordance with article 56 of the Local Councils Act, the executive secretary prepared a budget which was submitted to and approved by the council. Whilst reviewing the council's budget for 2016, we noted that the council is anticipating capital expenditure of €7,000 including improvements of €5,000 and equipment of

€2,000. On the other hand, no capital commitments were disclosed in the financial statements. Hence, there is a discrepancy of €7,000 between capital commitments as disclosed in the financial statements and those disclosed in the annual budget.

- 14.2 We recommend that capital commitments as disclosed in the financial statements agree to the budget so that the financial statements and the annual budget accurately reflect the council's future capital commitments. We also recommend that the council states how this expenditure is to be funded i.e. by means of a grant or financed by the council itself. Thus, the council provides a more complete and consistent disclosure of its future capital expenditure plans in accordance with the Procedures and IFRSs, as well as informing users of the financial statements of the council's intentions.

15 Prior year adjustment

- 15.1 The accountant passed a prior year adjustment of €60 effective in the year ended 31.12.2013. The council failed to disclose the prior year adjustment in accordance with IFRS's in the unaudited financial statements.

Reference is made to IAS 8 which specifies the requirements of prior year adjustments. The standard states that a material prior year error should be corrected retrospectively in the first set of financial statements authorised for issue after its discovery by restating the comparative amounts for the prior period presented in which the error occurred. Furthermore, IAS 1 states that when a retrospective restatement of items in the financial statements is made, as a minimum, three statements of financial position and two of each of the other statements should be presented in the financial statements.

- 15.2 Furthermore we would like to add that prior year adjustments should only be used in rare circumstances and not for passing minor accounting errors or omissions every year due to poor accounting.

- 15.3 We refer to IAS 8, which states:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) Was available when financial statements for those periods were authorised for issue; and*
- (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.”

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Elaine Caruana and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

